



OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

April 20, 2009

TO: Phil Andrews, President, County Council

FROM: Isiah Leggett, County Executive

SUBJECT: FY10 Budget Adjustments

Set forth on the attached pages are adjustments to the FY10 Recommended Operating Budget, which I recommend the Council consider in its budget worksessions. This memorandum covers items not yet communicated to you by earlier actions. Each year, events subsequent to the transmittal of the budget in March, including actions by the General Assembly, require that certain changes should be proposed. I have reviewed a number of issues since March 16th, and the attached list reflects my recommendations on addressing the additional State aid reductions, as well as addressing some other budgetary issues.

My expenditure recommendations to date, if approved by the Council, would continue to maintain fiscal balance in both the Operating Budget and the CIP. Included in my proposed adjustments is recognition of the anticipated \$31.5 million reduction in State Aid for Highway User Revenues, Montgomery College, Local Jail Reimbursement, Local Health Formula, and other Aid programs. To address these funding shortfalls, I am recommending a number of actions including a significant reduction in Retiree Health Benefits pre-funding across all four agencies and releasing the remaining snow supplemental set-aside to fund these actions and other FY10 adjustments to maintain fiscal balance.

I want to emphasize that it is only very reluctantly that I am recommending further reductions to Retiree Health Benefits pre-funding. The associated liabilities of this commitment certainly have not diminished, but under the existing, constrained economic circumstances it is necessary to temporarily *defer* these expenditures. While a short-term deferral of this obligation is appropriate at this time, we must resume this funding in FY11 and prudently set aside funds for this commitment.

The allocation of the reduction in the Retiree Health Benefits pre-funding amounts is structured in a manner to leave approximately \$12 million with Montgomery County Public Schools (MCPS), since a further reduction to MCPS is dependent on approval of the County's pending Maintenance of Effort Waiver request.

Because we are projecting an FY11 budget gap of over \$370 million with continuing stagnation in our property, income, and transfer and recordation taxes and the State is projecting a gap of over \$1 billion, we strongly encourage the Council to accept these recommendations and not support further spending increases in FY10. Any additional resources identified in the Council's review of the

operating budget should be used to replenish and strengthen the County's reserves, not increase spending pressures and exacerbate next year's projected budget gap. Given the significant challenges facing the County in this year and that we have exercised so many of our options in terms of continuing and short term savings, we have very little flexibility during FY10 and must strengthen our reserve position especially in this period of tremendous economic uncertainty.

It should be noted that *Moody's*⁽¹⁾ has recently assigned a "negative outlook" to the entire U.S. Local Government Sector. This was the first time that *Moody's* has assigned such a classification to the Local Government Sector, but they did so because, "...of the significant fiscal challenges local governments face as a result of the housing market collapse, dislocations in the financial markets, and a recession that is broader and deeper than any recent downturn."¹ The Report goes on to state that the critical factors that will drive rating decisions in the next twelve to eighteen months include, "...industries particularly at risk in the current economic downturn, including, among others, real estate development, auto manufacturing, and financial services; volatile and declining revenue sources, like sales and real estate transfer taxes, that are particularly sensitive to economic fluctuations, and; expenditures that are legally mandated and/or effectively fixed in the near-term." The report notes that a high exposure to one or more of these factors will project downward pressure on ratings, unless there are certain mitigating factors that would counterbalance these trends such as, "Above average reserve levels; demonstrated willingness to make rapid, if not multiple, mid-year budget adjustments; and consistently conservative budget assumptions."

These observations have obvious relevance to and serious implications for Montgomery County and should serve to guide our budgetary decisions in the coming months. A downgrade in the County's credit rating would further and significantly increase debt service costs well into the future and reduce our capacity to fund other priorities. It should also be noted that Anne Arundel County was recently placed on a "negative outlook" by Fitch because its, "...reserve levels are weakening and financial flexibility is diminishing, attributable, in part, to a reduction of housing-related revenues." This change in the rating status of an AA+ jurisdiction was assigned even though the report also noted that Anne Arundel County possessed, "A considerable economic base, concentrated in the governmental and military sectors, shows excellent prospects for continued development and expansion. [and that] Wealth levels are well above average."

In closing, I urge the Council to consider the long-term implications of its actions and approve these recommendations as presented.

IL:jfb

Attachment: Recommended Budget Adjustments

c: Timothy L. Firestine, Chief Administrative Officer
Dr. Jerry D. Weast, Superintendent, Montgomery County Public Schools
Dr. Brian K. Johnson, President, Montgomery College
Royce Hanson, Chair, Montgomery County Planning Board
Stephen B. Farber, Council Staff Director
Kathleen Boucher, Assistant Chief Administrative Officer
Department and Office Directors

¹ *Moody's U.S. Public Finance*, April 2009, *Moody's Assigns Negative Outlook to U.S. Local Government Sector: Challenging Credit and Economic Environment Focuses Spotlight on Select Rating Factors*

AMENDMENTS TO THE CE RECOMMENDED BUDGET

FY10 OPERATING BUDGET

Tax Supported

RESOURCE AMENDMENTS

Montgomery County Government

COR	Eliminate Local Jail Reimbursement	-3,307,500
DTS	Ride-On Service	60,600
DTS	Implement Express Fare and Eliminate Discount Shuttle Bus Fare	550,000
HHS	Reduce Targeted Local Health Formula	-823,000
LIB	Increase State Aid for Libraries (change in State Aid relative to budget assumption)	143,740
TRN	Reduce Highway User State Aid	-22,793,100
Subtotal MCG Resources		-26,169,260

Montgomery County Public Schools

MCPS	Reduce State Aid for Non-Public Placements	-1,614,963
Subtotal MCPS Resources		-1,614,963

Montgomery College

MCC	State Aid	-1,004,413
MCC	Modify College Fund Balance Policy	919,115
Subtotal MC Resources		-85,298

Other

ZZX	Release of FY09 Set Aside	2,203,700
Subtotal Other Resources		2,203,700

Total Tax Supported Resources	-25,665,821
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EXPENDITURE AMENDMENTS

Montgomery County Government

DEP	Add: Support for the Maryland Clean Energy Center	270,000
DTS	Restore: Ride-On Service	600,000
NDA	Decrease Cost: Contribution to Retiree Health Benefits Trust	-16,391,930
NDA	Decrease Cost: FY10 Retirement Incentive Program	-1,241,170
NDA	Increase Cost: Allocation to Conference and Visitors Bureau	7,840
SHF	Increase Cost: Contribution to the State retirement system on behalf of the Sheriff	13,530
Subtotal MCG Expenditures		-16,741,730

Montgomery County Public Schools

MCPS	Decrease Cost: Contribution to Retiree Health Benefits Trust	-6,300,000
Subtotal MCPS Expenditures		-6,300,000

Montgomery College

MCC	Decrease Cost: Contribution to Retiree Health Benefits Trust	-700,000
Subtotal MC Expenditures		-700,000

Recommended Budget Adjustments

Tax Supported

Maryland-National Capital Park and Planning Commission

PPC	Decrease Cost: Contribution to Retiree Health Benefits Trust (Administration Fund)	-634,100
PPC	Decrease Cost: Contribution to Retiree Health Benefits Trust (Park Fund)	-1,290,000
Subtotal M-NCPPC Expenditures		-1,924,100
Total Tax Supported Expenditures		-25,665,830

Recommended Budget Adjustments**Non-Tax Supported****Non-Tax Supported****RESOURCE AMENDMENTS****Montgomery County Government**

DED	Workforce Investment Act / Federal Economic Stimulus funding accelerated from FY10 to FY09	-1,339,860
HHS	Cigarette Restitution Funds	-778,930
Subtotal MCG Resources		-2,118,790

Montgomery County Public Schools

MCPS	Elimination of Aging Schools grant from State	-1,023,000
Subtotal MCPS Resources		-1,023,000

Montgomery College

MCC	WDCE expenditures to align with State Aid reductions	-188,335
Subtotal MC Resources		-188,335

Maryland-National Capital Park and Planning Commission

PPC	Park Grant Expenditures	-69,000
Subtotal M-NCPPC Resources		-69,000
Total Non-Tax Supported Resources		-3,399,125

EXPENDITURE AMENDMENTS**Montgomery County Government**

DED	Eliminate: Workforce Investment Act / Federal Economic Stimulus funding accelerated from FY10 to FY09	-1,339,860
HHS	Reduce: Cigarette Restitution Funds	-778,930
Subtotal MCG Expenditures		-2,118,790

Montgomery County Public Schools

MCPS	Decrease Cost: Elimination of Aging Schools grant from State	-1,023,000
Subtotal MCPS Expenditures		-1,023,000

Montgomery College

MCC	Reduce: WDCE expenditures to align with State Aid reductions	-188,335
Subtotal MC Expenditures		-188,335

Maryland-National Capital Park and Planning Commission

PPC	Decrease Cost: Park Grant Expenditures	-69,000
Subtotal M-NCPPC Expenditures		-69,000
Total Non-Tax Supported Expenditures		-3,399,125

DETAIL ON RECOMMENDED FY10 CE AMENDMENTS

Tax Supported

RESOURCE AMENDMENTS

Correction and Rehabilitation

ELIMINATE LOCAL JAIL REIMBURSEMENT -3,307,500
This change in State support is consistent with actions taken by the Maryland General Assembly in its final approval of the State's FY10 budget.

DOT-Transit Services

RIDE-ON SERVICE 60,600
Restore weekday service on route 53 and Saturday service on route 29; restore route 93 with less frequent service and less span; restore route 7 with same frequency of service and span, but eliminate part of the route.

IMPLEMENT EXPRESS FARE AND ELIMINATE DISCOUNT SHUTTLE BUS FARE 550,000
Implement Express Fare of \$3.00/\$3.10 (SmarTrip/cash) on Route 70 (Milestone-Bethesda) and abolish 35 cent shuttle fare on Routes 93 and 96.

Health and Human Services

REDUCE TARGETED LOCAL HEALTH FORMULA -823,000
This change in State support is consistent with actions taken by the Maryland General Assembly in its final approval of the State's FY10 budget.

Public Libraries

INCREASE STATE AID FOR LIBRARIES (CHANGE IN STATE AID RELATIVE TO BUDGET ASSUMPTION) 143,740
This change in State support is consistent with actions taken by the Maryland General Assembly in its final approval of the State's FY10 budget.

Transportation

REDUCE HIGHWAY USER STATE AID -22,793,100
This change in State support is consistent with actions taken by the Maryland General Assembly in its final approval of the State's FY10 budget.

Montgomery County Public Schools

REDUCE STATE AID FOR NON-PUBLIC PLACEMENTS -1,614,963
This change in State support is consistent with actions taken by the Maryland General Assembly in its final approval of the State's FY10 budget. The Executive recommends a corresponding increase in the County's local contribution to offset this loss in tax supported revenue.

Montgomery College

STATE AID -1,004,413
This change in State support is consistent with actions taken by the Maryland General Assembly in its final approval of the State's FY10 budget. The difference between the change in fund balance policy and the State Aid loss will be made up by an increase in the local contribution.

MODIFY COLLEGE FUND BALANCE POLICY 919,115
The Executive recommends a change in the treatment of the College's available fund balance for

Detail on Recommended Budget Adjustments

Tax Supported

budgetary purposes. All County agencies except Montgomery College calculate the available beginning fund balance as the amount estimated to be available after the end of the previous fiscal year. Montgomery College calculates the fund balance available for the next fiscal year as the amount available at the end of the fiscal year two years ago. For example, the ending FY08 fund balance is considered the amount available for FY10, whereas, Montgomery County Government, Montgomery County Public Schools, and the Maryland-National Capital Park and Planning Commission calculate the estimated ending FY09 fund balance as the amount available for FY10. This recommended change would put the calculation of the College fund balance on the same basis as the other agencies.

Other

RELEASE OF FY09 SET ASIDE 2,203,700

When the Executive recommended the FY10 Budget, \$11,584,070 was retained as a set aside for snow and storm removal costs and other unanticipated cost increases. Snow/Storm removal costs are estimated to be approximately \$2.2 million below estimates and this amount is recommended to be released and used to offset State Aid Reductions referenced above.

Total Tax Supported Resources -25,665,821

EXPENDITURE AMENDMENTS

DOT-Transit Services

RESTORE: RIDE-ON SERVICE 600,000

Restore weekday service on route 53 and Saturday service on route 29; restore route 93 with less frequent service and less span; restore route 7 with same frequency of service and span, but eliminate part of the route.

Environmental Protection

ADD: SUPPORT FOR THE MARYLAND CLEAN ENERGY CENTER 270,000

To provide support for staffing the new Maryland Clean Energy Center, which will be located in Montgomery County at the Camille Kendall Academic Center at the Universities at Shady Grove. Under the joint proposal by the University of Maryland System and the County, Montgomery County pledged to provide funds for staffing the Center: \$270,000 in FY10 and \$286,200 in FY11. The FY10 total breaks down as follows:

Executive Director: \$130,000
Senior Program Manager: \$90,000
Analyst and Administrative: \$50,000
TOTAL: \$270,000

NDA - Conference and Visitors Bureau

INCREASE COST: ALLOCATION TO CONFERENCE AND VISITORS BUREAU 7,840

The Executive recommends an additional \$7,840 for the Conference and Visitor's Bureau to make the total amount of that Non-departmental Account 3.5 percent of total Hotel Motel tax revenues as required by the County Code.

NDA - Productivity Enhancements and Personnel Cost Savings

DECREASE COST: FY10 RETIREMENT INCENTIVE PROGRAM -1,241,170

This represents additional projected tax supported savings, based on information from the County Executive's actuary. Details are provided in the Fiscal Impact Statement related to Expedited Bill 10-09, Personnel - Retirement Incentive Program.

NDA - Retiree Health Benefits Trust

Detail on Recommended Budget Adjustments

Tax Supported

DECREASE COST: CONTRIBUTION TO RETIREE HEALTH BENEFITS TRUST -16,391,930
A budget adjustment is required to reduce the Montgomery County Government Retiree Health Benefits Trust contribution. This reduction will help offset the loss of State Aid.

Sheriff

INCREASE COST: CONTRIBUTION TO THE STATE RETIREMENT SYSTEM ON BEHALF OF THE SHERIFF 13,530
The Maryland General Assembly eliminated its contribution for the Sheriff's participation in the retirement system as part of its final actions on the FY10 State budget.

Montgomery County Public Schools

DECREASE COST: CONTRIBUTION TO RETIREE HEALTH BENEFITS TRUST -6,300,000
A budget adjustment is required to reduce the Montgomery County Public Schools Retiree Health Benefits Trust contribution. This reduction will help offset the loss of State Aid.

Montgomery College

DECREASE COST: CONTRIBUTION TO RETIREE HEALTH BENEFITS TRUST -700,000
A budget adjustment is required to reduce the Montgomery College Retiree Health Benefits Trust contribution. This reduction will help offset the loss of State Aid.

Maryland-National Capital Park and Planning Commission

DECREASE COST: CONTRIBUTION TO RETIREE HEALTH BENEFITS TRUST (ADMINISTRATION FUND) -634,100
A budget adjustment is required to reduce the Maryland-National Capital Park and Planning Commission Retiree Health Benefits Trust contribution. This reduction will help offset the loss of State Aid.

DECREASE COST: CONTRIBUTION TO RETIREE HEALTH BENEFITS TRUST (PARK FUND) -1,290,000
A budget adjustment is required to reduce the Maryland-National Capital Park and Planning Commission Retiree Health Benefits Trust contribution. This reduction will help offset the loss of State Aid.

Total Tax Supported Expenditures -25,665,830

Non-Tax Supported

RESOURCE AMENDMENTS**Economic Development**

WORKFORCE INVESTMENT ACT / FEDERAL ECONOMIC STIMULUS FUNDING -1,339,860
ACCELERATED FROM FY10 TO FY09

The Executive recommends accelerating the budget for this federal economic stimulus aid from FY10 to FY09 based on more recent information provided by the Maryland Department of Labor and Licensing. The Executive will shortly request a supplemental appropriation of \$1,301,992 to begin implementation of this grant opportunity.

Health and Human Services

CIGARETTE RESTITUTION FUNDS -778,930

This change in State support is consistent with actions taken by the Maryland General Assembly in its final approval of the State's FY10 budget.

Montgomery County Public Schools

ELIMINATION OF AGING SCHOOLS GRANT FROM STATE -1,023,000

This change in State support is consistent with actions taken by the Maryland General Assembly in its final approval of the State's FY10 budget.

Montgomery College

WDCE EXPENDITURES TO ALIGN WITH STATE AID REDUCTIONS -188,335

This change in State support is consistent with actions taken by the Maryland General Assembly in its final approval of the State's FY10 budget.

Maryland-National Capital Park and Planning Commission

PARK GRANT EXPENDITURES -69,000

This change in State support is consistent with actions taken by the Maryland General Assembly in its final approval of the State's FY10 budget.

Total Non-Tax Supported Resources -3,399,125

EXPENDITURE AMENDMENTS**Economic Development**

ELIMINATE: WORKFORCE INVESTMENT ACT / FEDERAL ECONOMIC STIMULUS -1,339,860
FUNDING ACCELERATED FROM FY10 TO FY09

The Executive recommends accelerating the budget for this federal economic stimulus aid from FY10 to FY09 based on more recent information provided by the Maryland Department of Labor and Licensing. The Executive will shortly request a supplemental appropriation of \$1,301,992 to begin implementation of this grant opportunity. These funds will be used for the following programs:

Adult funds \$184,793,

Youth funds \$343,884,

Dislocated Workers funds \$773,315.

Health and Human Services

REDUCE: CIGARETTE RESTITUTION FUNDS -778,930

Based on reductions identified by the Maryland General Assembly in its approval of the FY10

Detail on Recommended Budget Adjustments

Non-Tax Supported

State budget, the Executive recommends the abolishment of two positions - a Management Leadership Service III and a Liquor Control Enforcement Officer and related operating expenses. This reduction significantly affects Public Health Services efforts in reducing tobacco use disparities.

Montgomery County Public Schools

DECREASE COST: ELIMINATION OF AGING SCHOOLS GRANT FROM STATE -1,023,000

The Executive recommends reductions of \$1,023,000 in the MCPS grant fund due to reductions identified by the Maryland General Assembly in its approval of the FY10 State budget.

Montgomery College

REDUCE: WDCE EXPENDITURES TO ALIGN WITH STATE AID REDUCTIONS -188,335

The Executive recommends reductions of \$188,335 in the Montgomery College Continuing Education fund due to reductions identified by the Maryland General Assembly in its approval of the FY10 State budget.

Maryland-National Capital Park and Planning Commission

DECREASE COST: PARK GRANT EXPENDITURES -69,000

The Executive recommends reductions of \$69,000 in the MNCPPC Parks' Grant Fund due to reductions identified by the Maryland General Assembly in its approval of the FY10 State budget.

Total Non-Tax Supported Expenditures	-3,399,125
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